

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

In the Matter of the Application of)
PUHI SEWER & WATER CO., INC.)
For Review and Approval of Rate)
Increases and Revised Rate)
Schedules.)

DOCKET NO. 2006-0423

PROPOSED DECISION AND ORDER NO. 23376

Filed April 20, 2007
At 11 o'clock A.M.

Karen Higashi
Chief Clerk of the Commission

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Chief Clerk, Public Utilities
Commission, State of Hawaii.

Karen Higashi

TABLE OF CONTENTS
(Docket No. 2006-0423)

	<u>Page</u>
I. BACKGROUND	2
A. Puhi Sewer	2
B. Puhi Sewer's Requests	3
C. Initial Filings	5
D. Public Hearing Process	5
E. Position Statement and Stipulation	6
F. Issues	7
II. DISCUSSION	8
A. Parties' Stipulation	10
1. Terms and Conditions	10
2. Summary	12
B. Operating Revenues	12
C. Operating Expenses	15
1. Operations and Maintenance Expenses	15
2. Depreciation Expense	18
3. Revenue Taxes	18
4. Income Taxes	19
D. Rate Base	20
1. Net Plant-in-Service	20
2. ADIT	25
3. HCGETC	25
E. Rate of Return	25
F. Rate Design	26
G. Automatic Power Cost Adjustment Clause	28
H. Commission's Approval	31
III. SUMMARY OF FINDINGS AND CONCLUSIONS	32
IV. ACCEPTANCE OR NON-ACCEPTANCE	33
V. ORDERS	34

Exhibits

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PROPOSED DECISION AND ORDER

By this Proposed Decision and Order, the commission approves a general rate increase of \$55,274, or approximately five percent (5%) over revenues at present rates, for PUHI SEWER & WATER CO., INC. ("Puhi Sewer" or "PSW"), based on a total revenue requirement of \$1,160,114 for the 2007 calendar test year ("test year"). In so doing, the commission approves the Stipulation of Settlement Agreement in Lieu of [Puhi Sewer's] Rebuttal Testimonies, jointly filed by Puhi Sewer and the Department of Commerce and Consumer Affairs, Division of Consumer Advocacy ("Consumer Advocate" or "CA"), on March 30, 2007.¹ The commission, in approving the Parties' Stipulation: (1) authorizes Puhi Sewer to increase the rates and charges assessed to its residential, industrial, and commercial customers; and (2) authorizes the implementation of an Automatic Power Cost Adjustment Clause by Puhi Sewer.

¹The Consumer Advocate is an ex officio party to this proceeding, pursuant to Hawaii Revised Statutes ("HRS") § 269-51 and Hawaii Administrative Rules ("HAR") § 6-61-62(a). Puhi Sewer and the Consumer Advocate are collectively referred to as the "Parties."

I.

Background

A.

Puhi Sewer

Puhi Sewer is a public utility that provides wastewater collection and treatment services to its residential, industrial, and commercial customers located in the Lihue/Puhi area on the island of Kauai.² In addition, Puhi Sewer provides effluent to the Puakea Golf Course. Puhi Sewer is a wholly-owned subsidiary of Grove Farm Properties, Inc., which in turn is a wholly-owned subsidiary of Grove Farm Company, Inc.

In general, Puhi Sewer's wastewater treatment system consists of a wastewater treatment plant and pumping and access facilities. The wastewater treatment plant, in turn, has an average daily capacity of 1,000,000 gallons per day, and consists of a headworks facility, aerated lagoons, sand filtration and chlorination facilities, and an operations and maintenance building.

Puhi Sewer's wastewater rate schedule consists of:

- (1) a monthly flat-rate service charge for residential customers;
- (2) a monthly flat-rate service charge plus a sewer consumption charge based on domestic water use for industrial customers;
- (3) a monthly flat-rate service charge plus a sewer consumption

²See In re Puhi Sewer & Water Co., Inc., Docket No. 7576, Interim Decision and Order No. 12654, filed on October 7, 1993 (issuance of certificate of public convenience and necessity). The commission, in Docket No. 7576, also authorized Puhi Sewer to assess a charge for its provision of effluent used in golf course irrigation. See Docket No. 7576, Decision and Order No. 12654, at 8 - 11 and 17 (initial interim rate approved for effluent used in golf course irrigation).

charge based on domestic water use for commercial customers; and (4) an effluent charge for metered effluent delivered to the Puakea Golf Course. In addition, Puhi Sewer assesses new customers a one-time connection deposit/hook-up charge to connect with the utility's wastewater system.

B.

Puhi Sewer's Requests

Puhi Sewer seeks the commission's approval of a general rate increase of \$287,270, or 28.1 percent (28.1%) over revenues at present rates. The requested increase is based on an estimated total revenue requirement of \$1,369,422 for the test year, and an overall rate of return of 9.5 percent (9.5%). Puhi Sewer proposes to implement its requested increase in revenues with an across-the-board twenty-eight percent (28%) increase in its residential, industrial, and commercial wastewater rates. Puhi Sewer does not propose to increase its effluent charge.

Puhi Sewer's present and proposed rates are as follows:

	<u>Present Charge</u>	<u>Proposed Charge</u>	<u>% Increase</u>
Residential (Single-Family and Multi-Family/Condominiums) (monthly service charge per customer)	\$46.00	\$58.90	28.0%
Industrial (monthly service charge per customer)	Minimum service charge of \$286.00, plus a sewer consumption charge of \$6.88 per every 1,000 gallons of metered domestic water consumption	Minimum service charge of \$366.30, plus a sewer treatment charge of \$8.81 per every 1,000 gallons of metered domestic water consumption	28.1%
Commercial (monthly service charge per customer)	Minimum service charge of \$275.00, plus a sewer consumption charge of \$3.98 per every 1,000 gallons of metered domestic water consumption	Minimum service charge of \$352.20, plus a sewer treatment charge of \$5.10 per every 1,000 gallons of metered domestic water consumption	28.1%
Golf Course Irrigation (effluent charge)	\$0.50 per every 1,000 gallons of metered effluent delivered to the Puakea Golf Course.	No increase proposed.	0%

Puhi Sewer also requests the commission's approval to:

- (1) establish an Automatic Power Cost Adjustment Clause; and
- (2) increase its connection deposit/hook-up charge from \$100.00 to \$150.00.

In Puhi Sewer's previous general rate case, In re Puhi Sewer & Water Co., Inc., Docket No. 03-0383, the commission, in 2004, approved a three-step phase-in of Puhi Sewer's rate increase, with the latest and final phase-in taking effect on September 1, 2006. Puhi Sewer states that: (1) since the time of its last rate case proceeding in Docket No. 03-0383, its operating expenses have been greater and have increased more quickly than previously projected, and at a greater pace than its

operating revenues; and (2) its wastewater rates presently do not and will not in the foreseeable future produce sufficient revenues to earn a fair rate of return.

C.

Initial Filings

On October 23, 2006, Puhi Sewer filed its application for a general rate increase.³ On November 14, 2006, the Consumer Advocate filed its Statement of Position Regarding Completeness of Application, stating that it did not object to the completeness of Puhi Sewer's Application.⁴ On November 24, 2006, the commission held that the filing date of Puhi Sewer's complete Application was October 23, 2006, consistent with HRS § 269-16(f)(3).⁵

D.

Public Hearing Process

The commission's Notice of Public Hearing was published statewide in various newspapers, in accordance with HRS

³Puhi Sewer's Application; Exhibits PSW 1 - PSW 12; Attachment RO 202; Verification; and Certificate of Service, filed on October 23, 2006, as supplemented on December 13, 2006 (partial confidential seal) and December 18, 2006 (collectively, "Application"). Puhi Sewer served copies of its Application upon the Consumer Advocate.

⁴Consumer Advocate's Statement of Position Regarding Completeness of Application; and Certificate of Service, filed on November 14, 2006.

⁵See Order No. 23072, filed on November 24, 2006.

§§ 1-28.5, 269-12(c), and 269-16(b).⁶ Between December 1 - 12, 2006, Puhi Sewer notified its ratepayers by bill insert of the date, time, and location of the upcoming public hearing, in accordance with HRS § 269-12(c).⁷ On December 21, 2006, the commission held a public hearing on the requests set forth in Puhi Sewer's Application, at the Lihue Neighborhood Center in Lihue, Kauai, pursuant to HRS §§ 269-12(c) and 269-16(f)(2). At the public hearing, Puhi Sewer's representative, the Consumer Advocate, and a representative from Kauai Hospice, Inc., orally testified and submitted written comments.⁸

E.

Position Statement and Stipulation

Upon the completion of the discovery process, the Consumer Advocate, on February 16, 2007, filed its Direct Testimonies, Exhibits, and Workpapers. Following

⁶Specifically, the commission's Notice of Public Hearing was published on November 28, December 5, 12, and 19, 2006, in The Garden Island, Hawaii Tribune-Herald, Honolulu Star-Bulletin, The Maui News, and West Hawaii Today.

⁷See Puhi Sewer's letter, dated December 15, 2006, with a copy of the bill insert enclosed.

⁸Two other representatives from Kauai Hospice, Inc. submitted written comments at the public hearing but did not testify. The commission also received written comments from three individual ratepayers by electronic or postal mail. See commission's letter, dated December 27, 2006, with enclosures; and commission's letter, dated January 10, 2007, with enclosure.

In general, the ratepayers' comments: (1) urge the commission to carefully consider Puhi Sewer's proposed increase in rates; (2) supports consumption charges but not minimum service charges, and urges the reduction in the minimum service charges; (3) objects to Puhi Sewer's proposal to establish an Automatic Power Adjustment Clause; and (4) objects to Puhi Sewer's request to increase its rates.

Puhi Sewer's review of the Consumer Advocate's filing, Puhi Sewer engaged in settlement discussions with the Consumer Advocate.⁹ As a result, on March 30, 2007, the Parties filed their Stipulation of Settlement Agreement in lieu of [Puhi Sewer's] Rebuttal Testimonies.¹⁰

F.

Issues

As set forth in Exhibit 1 of Order No. 23189, filed on January 11, 2007, the underlying issue is whether Puhi Sewer's proposed increases in its rates and charges are reasonable. This issue, in turn, involves the determination of the following sub-issues:

1. Whether Puhi Sewer's proposed tariffs, rates, and charges are just and reasonable.
2. Whether the revenue forecasts for the test year at present and proposed rates are reasonable.
3. Whether the projected operating expenses for the test year are reasonable.
4. Whether the projected rate base for the test year is reasonable, and are the properties included in the rate base used and useful for public utility purposes.
5. Whether the requested rate of return is fair.

⁹See Puhi Sewer's letters, dated February 22, 2007 and March 8, 2007; and Parties' Stipulation, Preamble, at 1 - 2.

¹⁰Parties' Stipulation of Settlement Agreement in Lieu of [Puhi Sewer's] Rebuttal Testimonies; Exhibits A to L; Attachments 1 to 7; and Certificate of Service, filed on March 30, 2007 (collectively, "Stipulation").

II.

Discussion

HRS § 269-16(f) states in relevant part:

(f) Notwithstanding any law to the contrary, for public utilities having annual gross revenues of less than \$2,000,000, the commission may make and amend its rules and procedures to provide the commission with sufficient facts necessary to determine the reasonableness of the proposed rates without unduly burdening the utility company and its customers. In the determination of the reasonableness of the proposed rates, the commission shall:

.

(2) Hold a public hearing as prescribed in section 269-12(c) at which the consumers or patrons of the public utility may present testimony to the commission concerning the increase. The public hearing shall be preceded by proper notice, as prescribed in section 269-12; and

(3) Make every effort to complete its deliberations and issue a proposed decision and order within six months from the date the public utility files a completed application with the commission; provided that all parties to the proceeding strictly comply with the procedural schedule established by the commission and no person is permitted to intervene. If a proposed decision and order is rendered after the six-month period, the commission shall report in writing the reasons therefor to the legislature within thirty days after rendering the proposed decision and order. Prior to the issuance of the commission's proposed decision and order, the parties shall not be entitled to a contested case hearing.

If all parties to the proceeding accept the proposed decision and order, the parties shall not be entitled to a contested case hearing, and section 269-15.5 shall not apply. If the commission permits a person to intervene, the six-month period shall not apply and the commission shall make

every effort to complete its deliberations and issue its decision within the nine-month period from the date the public utility's completed application was filed, pursuant to subsections (b), (c), and (d).

If a party does not accept the proposed decision and order, either in whole or in part, that party shall give notice of its objection or nonacceptance within the timeframe prescribed by the commission in the proposed decision and order, setting forth the basis for its objection or nonacceptance; provided that the proposed decision and order shall have no force or effect pending the commission's final decision. If notice is filed, the above six-month period shall not apply and the commission shall make every effort to complete its deliberations and issue its decision within the nine-month period from the date the public utility's completed application was filed as set forth in subsection (d). Any party that does not accept the proposed decision and order under this paragraph shall be entitled to a contested case hearing; provided that the parties to the proceeding may waive the contested case hearing.

Public utilities subject to this subsection shall follow the standard chart of accounts to be approved by the commission for financial reporting purposes. The public utilities shall file a certified copy of the annual financial statements in addition to an updated chart of accounts used to maintain their financial records with the commission and consumer advocate within ninety days from the end of each calendar or fiscal year, as applicable, unless this timeframe is extended by the commission. The owner, officer, general partner, or authorized agent of the utility shall certify that the reports were prepared in accordance with the standard chart of accounts.

HRS § 269-16(f).

As a public utility with annual gross revenues of less than \$2 million, Puhi Sewer filed its Application pursuant to HAR § 6-61-88 (general rate increase application filed by a public

utility with annual gross revenues of less than \$2 million) and HRS § 269-16, specifically subsection (f). Moreover, Puhi Sewer and the Consumer Advocate are the only parties in this proceeding; there are no intervenors. Accordingly, the commission must make every effort to issue its Proposed Decision and Order within six months from the filing date of Puhi Sewer's complete Application, "provided that all parties to the proceeding strictly comply with the procedural schedule established by the commission and no person is permitted to intervene."¹¹

The commission timely issues this Proposed Decision and Order, in accordance with HRS § 269-16(f)(3).

A.

Parties' Stipulation

1.

Terms and Conditions

The Stipulation reflects the Parties' global settlement of all issues. In reaching their global agreement, the Parties note:

1. The Stipulation, binding between them, "represent[s] compromises by the Parties to fully and finally resolve all issues in the subject docket on which they had differences for the purpose of simplifying and expediting this proceeding, and are not meant to be an admission by either of the Parties as to the acceptability or permissibility of matters stipulated to herein."¹²

¹¹HRS § 269-16(f)(3).

¹²Parties' Stipulation, at 7.

2. The Parties reserve their respective rights to proffer, use, and defend different positions, arguments, methodologies, or claims regarding the matters stipulated to herein in other dockets or proceedings.
3. The Parties "have stipulated to the various revenue and rate components and matters discussed in the [Stipulation] as being appropriate, without necessarily agreeing on the underlying methodologies or justifications asserted by the other party."¹³ The Parties also agree that "nothing contained in this Stipulation shall be deemed to, nor be interpreted to, set any type of precedent, or be used as evidence of either Parties' position in any future regulatory proceeding, except as necessary to enforce this Stipulation."¹⁴
4. Each provision of the Stipulation is in consideration and support of all other provisions, and is expressly conditioned upon the commission's acceptance of the matters expressed in the Stipulation in their entirety.

"In the event the Commission declines to adopt parts or all of the matters agreed to by the Parties and as set forth in this Stipulation, the Parties reserve the right to pursue any and all of their respective positions through further negotiations and/or additional filings and proceedings before the Commission."¹⁵

Ultimately, the Parties acknowledge that the Stipulation is subject to the commission's review and approval, and that the commission is not bound by the Stipulation.

In this regard, it is well-settled that an agreement between the parties in a rate case cannot bind the commission, as the commission has an independent obligation to set fair and just rates and arrive at its own conclusion. In re Hawaiian Elec. Co., Inc., 5 Haw. App. 445, 698 P.2d 304 (1985). With this

¹³Parties' Stipulation, at 6 - 7.

¹⁴Parties' Stipulation, 7.

¹⁵Parties' Stipulation, at 40.

mandate, the commission proceeds in reviewing whether the Parties' Stipulation appears just and reasonable, taken as a whole.

2.

Summary

The Parties stipulate to a revenue requirement of \$1,160,114, based on a rate of return of 8.85% on Puhi Sewer's average test year rate base of \$2,211,644.¹⁶ The Stipulation results in an increase in revenues of \$55,274, or approximately five percent (5%) over revenues at present rates. The Parties agree that the Stipulation provides Puhi Sewer with a reasonable opportunity to earn its test year revenue requirement of \$1,160,114. For Puhi Sewer's rate design, the Parties agree that the increase in revenues should be applied to all rate classes (residential, industrial, and commercial), with no change in the effluent charge or the connection deposit/hook-up charge.

B.

Operating Revenues

The Parties' initial estimates of Puhi Sewer's revenues at present rates, as reflected in Puhi Sewer's Application (Exhibits PSW 9-1 and PSW 9-2) and in the Consumer Advocate's Direct Testimonies (Exhibit CA-101), were as follows:

¹⁶See Parties' Stipulation, Exhibit A, Revenue Requirement Schedule.

	Puhi Sewer's Estimate	Consumer Advocate's Estimate
<u>Classification</u>	<u>Present Rates</u>	<u>Present Rates</u>
Residential (Single-Family)	\$356,868	\$341,412
Residential (Multi-Family)	\$194,304	\$194,304
Industrial	\$142,130	\$159,581
Commercial	\$321,251	\$348,587
Golf Course Irrigation (Effluent Charge)	\$62,898	\$65,631
Hook-up Charge	<u>\$4,700</u>	<u>\$5,100</u>
	\$1,082,152	\$1,114,616

The Parties, as a result of their Stipulation, agree to the following estimates of Puhi Sewer's revenues at present rates (Parties' Stipulation, Exhibit A):

<u>Classification</u>	<u>Present Rates</u>
Residential (Single-Family)	\$341,413
Residential (Multi-Family)	\$194,304
Industrial	\$153,670
Commercial	\$345,165
Golf Course Irrigation (Effluent Charge)	\$65,188
Hook-up Charge	<u>\$5,100</u>
	\$1,104,840

The single-family residential customer revenues are based on a customer count of 618.5 for the test year,¹⁷ while the multi-family residential customer revenues are based on a customer count of 352 for the test year.¹⁸

The industrial customer revenues are based on a customer count of 47 for the test year, plus the domestic water usage for each of these industrial customers during the test year.¹⁹ Likewise, the commercial customer revenues are based on a customer count of 35 for the test year, plus the domestic water usage for each of these commercial customers during the test year.²⁰

The revenues from the effluent charge are based on the projected sale of 130,375,000 gallons of metered effluent to the

¹⁷618.5 single-family residential customers x \$46 monthly residential service charge x 12 months = \$314,412, rounded to \$314,413. See Puhi Sewer's response to CA-SIR-12(c); and CA-T-2, at 4 - 5.

¹⁸352 multi-family residential customers x \$46 monthly residential service charge x 12 months = \$194,304. See Puhi Sewer's Application, at 2, and Exhibit PSW 12-T-100, at 8; Puhi Sewer's response to CA-IR-6(a); and CA-T-2, at 3 - 5.

¹⁹See Consumer Advocate's confidential exhibits, filed on February 16, 2007; and Parties' Stipulation, Exhibit A, at 1 and 8. In the Stipulation, the Parties discuss their agreement on the amount of domestic water used by a bottled water company for the test year, a portion of which does not enter Puhi Sewer's wastewater treatment system. See Parties' Stipulation, Section III.B.1.A, at 11 - 12 (partial confidential seal).

²⁰See Consumer Advocate's confidential exhibits, filed on February 16, 2007; and Parties' Stipulation, Exhibit A, at 1 and 8. In the Stipulation, the Parties discuss their agreement on the domestic water used by a physician's facility for the test year. See Parties' Stipulation, Section III.B.1.B, at 12 (partial confidential seal).

Puakea Golf Course for irrigation purposes during the test year.²¹ The revenues from the hook-up charge are based on the 51 new customers that are projected to hook-up with Puhi Sewer's wastewater treatment system during the test year.²²

The commission finds reasonable the Parties' test year estimates for operating revenues at present rates.

C.

Operating Expenses

Puhi Sewer's operating expenses consist of three categories: (1) operations and maintenance expenses; (2) depreciation expense; and (3) taxes.

1.

Operations and Maintenance Expenses

Puhi Sewer has no direct employees. Instead, the daily operations and maintenance functions are performed by Aqua Engineers, Inc., including the necessary work to connect new customers to Puhi Sewer's wastewater treatment system, pursuant to a written contract.²³ The customer billing and collection

²¹130,375,000 gallons x \$0.50 per gallon = \$65,188. See Parties' Stipulation, Exhibit A, at 1 and 6; and Exhibit F.

²²51 new customers x \$100 one-time hook-up charge = \$5,100. See CA-T-1, at 15; CA-T-2 at 10, and CA-208; and Parties' Stipulation, at 9 - 10 and 16.

²³With respect to Aqua Engineers, Inc., Puhi Sewer states:

Aqua provides a full range of technical services and expertise required for the safe and efficient operation and maintenance of PSW, including the collection and transportation mains, wastewater treatment plant, pumping stations and all other equipment serving the facility and

functions are performed by CB Richard Ellis of Hawaii, Inc., also under a written contract.²⁴

The remaining functions, including the administrative, financial, corporate, accounting, and other non-operational functions, are performed by employees of Haile Moe, Inc., an affiliate of Puhi Sewer. To properly record and allocate the charges assessed by Haile Moe, Inc., in its performance of utility-related duties: (1) Puhi Sewer signed an agreement in January 2006 with Haile Moe, Inc.; and (2) company personnel conducted time studies during October 2006 and January 2007 as a proxy for the test year.²⁵

The Parties agree on the following operations and maintenance expense amounts for the test year:²⁶

PSW's customers. PSW's treatment facilities are being operated to produce the highest quality effluent of which it is capable (R-1 water). Aqua's personnel are Direct Responsible Charge Operators. This means they meet the State of Hawaii standards and licensing requirements for operating a sewage treatment plant.

Exhibit PSW 12-T-100 at 7. See also id. at 33 - 34.

²⁴As explained by Puhi Sewer, CB Richard Ellis of Hawaii, Inc. "performs all fiscal services, including billing customers, applying cash receipts to customers' accounts, paying invoices and preparing [accounting] reports as required by [Puhi Sewer]." Exhibit PSW 12-T-100 at 7 - 8. See also id. at 36.

²⁵Puhi Sewer's responses to CA-SIR-11; Attachment CA-SIR-11(a); Attachment CA-SIR-11(b); Supplemental Attachment CA-SIR-11(c); Supplemental Attachment CA-SIR-11(d); and Parties' Stipulation, Section III.C.8, at 18 - 20.

²⁶The third and fourth columns identify whose estimate the other party accepted for settlement purposes. For example, for electricity expense, the Consumer Advocate accepted Puhi Sewer's estimate of \$208,640.

Meanwhile, the stipulated amount of \$34,320 for allocated charges (Haile Moe, Inc.) is based on a twenty percent reduction in the amount originally requested by Puhi Sewer, as a compromise

<u>Operations/Maintenance</u>	<u>Parties'</u> <u>Agreement</u>	<u>Puhi Sewer's</u> <u>Estimate</u>	<u>CA's</u> <u>Estimate</u>
Electricity	\$208,640	x	
Water	\$3,536	x	
Professional Fees - Aqua Engineers, Inc.	\$199,860		x
Professional Fees - Other (Chemicals, Other Supplies)	\$29,000	x	
Insurance	\$37,252	x	
Management Fees - CB Richard Ellis Hawaii, Inc.	\$34,375	x	
Repairs & Maintenance - Equipment	\$25,000	x	
Allocated Charges - Haile Moe, Inc.	\$34,320		
Rate Case Amortization	\$37,820		
Bad Debt/Uncollectibles	\$5,840		x

In general, the operations and maintenance expense amounts (excluding rate case amortization and bad debt/uncollectible) represent the normalized level of funds Puhi Sewer will expend during the test year to operate its facilities to provide: (1) wastewater collection and treatment services to its ratepayers; and (2) metered effluent to the Puakea Golf Course for irrigation purposes.

between the Parties with respect to this account. As part of this compromise, Puhi Sewer confirms that: (1) the fees charged by Haile Moe, Inc., are based on actual salary rates and employee fringe benefits, with no mark-up for profit; (2) as an affiliate, no State general excise tax is payable on the service fees paid by Puhi Sewer to Haile Moe, Inc.; and (3) the time sheets provided by Puhi Sewer in its Attachment CA-SIR-11.b (Parts 1 and 2) set forth the actual time spent by Haile Moe, Inc.'s employees in performing functions for and on behalf of Puhi Sewer. See Parties' Stipulation, Section III.C.8, at 18 - 20.

Furthermore, the stipulated amount of \$37,820 for rate case amortization: (1) is based on a three-year amortization period agreed upon by the Parties; and (2) reflects the actual, updated amounts expended by Puhi Sewer to process this rate case, including the discovery and settlement phase. Of significant note, the stipulated amount excludes any costs associated with the evidentiary hearing and post-hearing briefing phase. See Parties' Stipulation, Section III.C.9, at 20 - 22; and Exhibit A, at 7.

Rate case amortization, meanwhile, represents the reasonable amount of expenses incurred by Puhi Sewer to process this rate case, amortized over a three-year period. Lastly, the bad debt/uncollectible expense amount is based on a bad debt factor of 0.54%, as recommended by the Consumer Advocate and agreed-upon by Puhi Sewer.²⁷

The commission finds reasonable the Parties' stipulated amounts for operations and maintenance expenses.

2.

Depreciation Expense

Exhibit C, page 5, of the Stipulation sets forth the Parties' agreed-upon calculations for depreciation expense. The Parties stipulate to depreciation expense of \$154,919 for the test year, based on the Parties' agreement of the net plant-in-service amount for the test year (see Section III.D.1, below).²⁸ The commission finds reasonable this stipulated amount for depreciation expense.

3.

Revenue Taxes

Puhi Sewer's revenue taxes, otherwise known as taxes other than income taxes or TOTIT, consist of the:

²⁷Puhi Sewer initially proposed a bad debt factor of 1.50%, but ultimately agreed to reduce its bad debt factor to the 0.54% recommended by the Consumer Advocate. See CA-T-1, Section VI.E, at 31 - 36; and Parties' Stipulation, Section III.C.10, at 22 - 23.

²⁸See Parties' Stipulation, Section III.C.11, at 23; Exhibit A, at 1; Exhibit B, at 1; and Exhibit C, at 5.

(1) State Public Service Company Tax ("PSCT"), 5.885 percent; and
(2) State Public Utility Fee, 0.50 percent. The commission finds reasonable the Parties' stipulated amount of \$73,712 for revenue taxes at proposed rates, calculated as follows:²⁹

PSCT: 5.885% x \$1,153,976* = \$67,911

*Revenues at proposed rates,
excluding bad debt/uncollectibles

PUC Fee: 0.50% x \$1,160,114* = \$5,801

*Total revenues at proposed rates
\$73,712

4.

Income Taxes

The Parties' methodology for calculating income taxes is set forth in Exhibit A, pages 3 and 4, of the Stipulation. Specifically, the Parties apply a composite State and federal income tax rate of 37.970% to Puhi Sewer's taxable income at proposed rates, in deriving the utility's income tax expense amount of \$119,811 at proposed rates.³⁰ The Parties' method and calculation of income tax expense is consistent with past commission practices. For purposes of this rate case, the commission accepts as reasonable the sum of \$119,811 for income taxes.

²⁹See Parties' Stipulation, Section III.C.12.a, at 24; Exhibit A, at 1 and 5; and Exhibit B, at 1.

³⁰Parties' Stipulation, Section III.C.12.b, at 25; Exhibit A, at 1, 3, and 4; and Exhibit B, at 1.

D.

Rate Base

Exhibit C of the Stipulation sets forth the Parties' agreed-upon calculations for Puhi Sewer's test year rate base of \$2,211,644.³¹ In general, Puhi Sewer's rate base consists of its net plant-in-service (i.e., plant-in-service minus accumulated depreciation), less accumulated deferred income taxes ("ADIT") and the Hawaii Capital Goods Excise Tax Credit ("HCGETC"), as follows:³²

Average Rate Base, Test Year

Plant-in-service	\$5,447,134
Accumulated depreciation	<u>(\$2,514,414)</u>
Net plant-in-service	\$2,932,720
ADIT	(\$671,203)
HCGETC	(\$49,873)
Net CIAC	<u>-</u>
	\$2,211,644
Working capital	<u>-</u>
Average rate base	\$2,211,644

1.

Net Plant-in-Service

The stipulated average net plant-in-service amount of \$2,932,720 results from the following areas of compromise agreed-upon by the Parties for settlement purposes: (1) operating

³¹See also Parties' Stipulation, Exhibit A, at 1; and Exhibit B, at 1.

³²For the test year, Puhi Sewer has no net contributions-in-aid-of-construction ("CIAC") or working capital. See Parties' Stipulation, Section III.D.4, at 35 - 36; Exhibit A, at 1; Exhibit B, at 1; and Exhibit C.

reserve fund; (2) the relocation of certain 2006 additions to 2007; (3) the removal of certain 2006 and 2007 additions; and (4) the excess capacity factor.³³

The Parties agree that Puhi Sewer inadvertently excluded from its plant-in-service balance \$52,965 in plant assets purchased by Puhi Sewer with monies from its now defunct operating reserve fund.³⁴ Thus, for settlement purposes, the Parties agree to include in Puhi Sewer's test year plant-in-service balance the \$52,965 in plant assets.

To reflect their completion or estimated completion during the test year, the Consumer Advocate proposed to relocate from 2006 to 2007: (1) the \$55,000 cost for the effluent pump spare pump and motor; and (2) the \$18,000 cost of the Lift Station Pump #1 replacement.³⁵ During settlement negotiations, Puhi Sewer accepted the Consumer Advocate's proposed adjustments.

As part of its Direct Testimonies, the Consumer Advocate initially recommended the disallowance of ten projects from Puhi Sewer's test year plant-in-service balance,

³³See Parties' Stipulation, Section III.D.1, at 26 - 33; and Exhibit C.

³⁴See CA-T-2, at 14 - 15; and Parties' Stipulation, Section III.D.1.a(1), at 27; and Exhibit C. The Consumer Advocate notes that in Docket No. 03-0383, Decision and Order No. 21312, "the Commission approved the inclusion of certain assets in [Puhi Sewer's] plant-in-service purchased with an operating reserve fund with a corresponding offset in CIAC. As a result, [Puhi Sewer's] December 31, 2004 plant-in-service balance in Docket No. 03-0383 included \$52,965 associated with assets purchased with the operating reserve fund." CA-T-2, at 14 - 15 (footnotes and text therein omitted).

³⁵See CA-T-2, at 19 - 20, 23, and 25; and Parties' Stipulation, Section III.D.1.a(2), at 27; and Exhibit C.

due to its concerns that these projects may not be completed until after the test year, or questions regarding the projects' overall need as part of the utility's operations.³⁶ The Consumer Advocate recommended the exclusion of the costs associated with these projects until its concerns were adequately addressed.³⁷

In response to the Consumer Advocate's position, Puhi Sewer "provided the Consumer Advocate with the documentation attached [to the Stipulation] as Exhibits G through L (and the attachments referenced therein) to support the need for each of these projects, the corresponding useful lives of the assets to be replaced by these projects and the estimated project timeline demonstrating the expected completion of each of these projects within the 2007 Test Year."³⁸ Based on the additional documentation, Puhi Sewer requested that the Consumer Advocate reconsider its position and include all of the updated project costs as test year plant additions, with a corresponding reduction in these costs by one-half for purposes of calculating their average impact on rate base.

Thereafter, as a result of the Parties' settlement negotiations:

1. Puhi Sewer agrees to the Consumer Advocate's recommendation to remove two of the projects -- the Chlorine

³⁶See CA-T-2, at 18 - 25; and Parties' Stipulation, Section III.D.1.a(3), at 27 - 31.

³⁷CA-T-2, at 25.

³⁸Parties' Stipulation, at 28. See also id. Exhibits G - L and Attachments 1 - 7.

Contact Tank and Other Plant Additions -- from Puhi Sewer's test year plant-in-service balance.

2. The Consumer Advocate agrees to include the eight other projects as test year plant additions, as follows:

<u>Project</u>	<u>Cost</u>
Aeration Lagoon Diffusers, Etc.	\$111,600
Blower #2	\$30,500
Lift Station Pump #2	\$18,000
Plant Access Road	\$72,900
Shuler Lift Station Pump #1	\$31,800
Sludge Rake - Clarifier #1	\$8,550
Sludge Rake - Clarifier #2	\$8,550
Sludge Rake - Clarifier #3	<u>\$8,550</u>

\$290,450³⁹

3. Puhi Sewer agrees to adopt the Consumer Advocate's recommendations for Puhi Sewer to:

- A. Establish a new account, Account #300018, with a fifteen-year service life, and to include the following rate base items in this account, as opposed to accounts with a ten-year service life: Aeration Lagoon Diffusers; Blower #2; Lift Station Pump #2, Shuler Lift Station Pump #1, and Sludge Rake - Clarifiers #1, #2, and #3; and
- B. "[K]eep the proper plant asset records to make the proper adjustments in rate base for future rate proceedings by removing the remaining net book

³⁹One-half of this amount is reflected in Puhi Sewer's average test year rate base. Parties' Stipulation, at 30 n.18 and 19; Exhibit C, at 4; and Exhibits G - L, and Attachments 1 - 7. See also Puhi Sewer's supplemental response to CA-SIR-2, and Supplemental Attachment CA-SIR-2 (updated project cost estimates).

value cost of plant that is replaced prior to being fully depreciated[.]"⁴⁰

Lastly, for settlement purposes, the Parties stipulate to an excess capacity factor of fifty-eight percent (58%), which essentially acknowledges that "a portion of [Puhi Sewer's] plant-in-service [is] in excess of what [will] be needed to serve its customer base in the Test Year and a reasonable level of unforeseen flows, and thus should be treated as excess capacity to be reduced from [Puhi Sewer's] rate base."⁴¹

Based on the stipulated excess capacity factor of fifty-eight percent (58%), the Parties stipulate to an average test year plant-in-service amount of \$5,447,134. Moreover, given this agreed-upon amount for Puhi Sewer's plant-in-service, the Parties stipulate to: (1) accumulated depreciation of \$2,514,414;⁴² and (2) a net plant-in-service balance of \$2,932,720. The commission finds reasonable these agreed-upon amounts of \$5,447,134, \$2,514,414, and \$2,932,720, respectively, and the compromises reached by the Parties, discussed above, in calculating these respective amounts.

⁴⁰Parties' Stipulation, at 31 n.21.

⁴¹Parties' Stipulation, at 31. See also Puhi Sewer's Application, Exhibit PSW 12-T-100, at 15; and Parties' Stipulation, Exhibit C, at 9. As part of its Application, Puhi Sewer initially proposed an excess capacity factor of forty-eight (48%), while the Consumer Advocate in its Direct Testimonies countered with an excess capacity factor of 59.6%. Ultimately, the Parties agreed-upon an excess capacity factor of fifty-eight percent (58%). See Parties, Stipulation, Section III.D.1.a(4), at 31 - 32.

⁴²Exhibit C, page 5, reflects the Parties' agreed-upon calculations for accumulated depreciation. See also Parties' Stipulation, Section III.D.1.b, at 33; and Exhibit C, at 1.

2.

ADIT

Exhibit C, pages 6 - 8, of the Stipulation, sets forth the Parties' agreed-upon calculations for ADIT. As a result, the Parties stipulate to \$671,203 as the applicable amount for the average ADIT. The commission finds reasonable this stipulated amount.

3.

HCGETC

The HCGETC provides a tax credit of four percent (4%) of the purchase price or construction cost of qualifying plant and equipment used in a trade or business.⁴³ Exhibit C, page 9, of the Stipulation, sets forth the Parties' agreed-upon calculations for the HCGETC. As a result, the Parties stipulate to an average unamortized HCGETC balance of \$49,873. The commission finds reasonable this stipulated amount.

E.

Rate of Return

As part of its Application, Puhi Sewer initially proposed a rate of return of 9.5%. The Consumer Advocate, by its Direct Testimonies, recommended a rate of return of 8.85%. Puhi Sewer, for purposes of compromise, agrees to the 8.85% rate of return recommended by the Consumer Advocate.

The Consumer Advocate's recommended rate of return of 8.85% is based on the same rate of return found to be fair

⁴³See HRS § 235-110.7.

by the commission in In re Hawaii-American Water Co., Inc., Docket No. 03-0025, Decision and Order No. 20966, filed on May 6, 2004,⁴⁴ and is the same rate of return previously approved by the commission in Puhi Sewer's last rate case, Docket No. 03-0383.⁴⁵ Under the circumstances, the commission finds that the stipulated rate of return of 8.85% is fair.

F.

Rate Design

The Parties concur that the stipulated increase in revenues at present rates of \$55,274, or approximately five percent (5%), should be applied to all rate classes (residential, industrial, and commercial), with no change in the effluent charge or the connection deposit/hook-up charge. Accordingly, the Parties stipulate to the following rate design for Puhi Sewer:

⁴⁴See CA-T-1, at 45 - 47.

⁴⁵See Docket No. 03-0383, Decision and Order No. 21312, Section X, at 24.

	<u>Present Charge</u>	<u>Stipulated Charge</u>	<u>% Increase</u>
Residential (Single-Family and Multi-Family/Condominiums) (monthly service charge per customer)	\$46.00	\$49.00	6.52%
Industrial (monthly service charge per customer)	Minimum service charge of \$286.00, plus a	Minimum service charge of \$286.00, plus a	0%
	sewer consumption charge of \$6.88 per every 1,000 gallons of metered domestic water consumption	sewer treatment charge of \$7.18 per every 1,000 gallons of metered domestic water consumption	4.36%
Commercial (monthly service charge per customer)	Minimum service charge of \$275.00, plus a	Minimum service charge of \$275.00, plus a	0%
	sewer consumption charge of \$3.98 per every 1,000 gallons of metered domestic water consumption	sewer treatment charge of \$4.37 per every 1,000 gallons of metered domestic water consumption	9.80%
Golf Course Irrigation (effluent charge)	\$0.50 per every 1,000 gallons of metered effluent delivered to the Puakea Golf Course	\$0.50 per every 1,000 gallons of metered effluent delivered to the Puakea Golf Course	0%
Hook-Up Charge	\$100.00	\$100.00	0%

The commission finds reasonable the Parties' stipulated rate design, which provides Puhi Sewer with a reasonable opportunity to earn its test year revenue requirement of \$1,160,114. Moreover, the stipulated rate design will not result in any changes to the monthly service charge for Puhi Sewer's industrial and commercial customers, whose increase in rates will be limited to the non-fixed, water usage charge.

G.

Automatic Power Cost Adjustment Clause

Puhi Sewer proposes to establish an Automatic Power Cost Adjustment Clause ("APCAC") that will enable it to automatically pass through to its customers, changes in the cost of electricity purchased and used by Puhi Sewer to provide wastewater utility service to its customers. The APCAC is designed to calculate the difference, up or down, from the base cost of electric charges established in this proceeding (i.e., the "base rate"),⁴⁶ and shall increase or decrease the monthly charge to customers.

The proposed methodology for calculating the monthly APCAC rate is set forth in Exhibit PSW 11 of Puhi Sewer's Application.⁴⁷ Specifically, the monthly APCAC rate is calculated using the total of the most recent twelve months kWh used, times the cost per kWh for the most recent month. This sum is then divided by the approved revenue level for customers providing wastewater flow, and the resulting percentage is added to the customers' bills for the following month.

The Consumer Advocate does not object to Puhi Sewer's proposal to establish an APCAC, or recommend any changes to the methodology proposed by Puhi Sewer. Accordingly, the Parties

⁴⁶"The base rate for the APCAC shall be the cost per [kilowatt hour] kWh that results from the total electric expense used in the establishment of the approved rates and the revenues resulting from those approved rates." Puhi Sewer's Application, Exhibit PSW 11, at 1.

⁴⁷See also Puhi Sewer's Application, Exhibit PSW 12-T-100, at 50 - 51.

request that the commission approve Puhi Sewer's request to establish an APCAC.

Moreover, as part of their Stipulation, the Parties jointly state that HRS § 269-16(g), relating to automatic fuel rate adjustment clauses, does not apply to wastewater facilities and operations such as Puhi Sewer, nor to the utility's proposed APCAC. Specifically, the Parties reason:

1. Based on the relevant legislative history, HRS § 269-16(g) "[r]equire[s] the [commission] to examine the functioning of the utility's fuel adjustment clause by December 31, 2007, or in the utility's next general rate case, whichever comes first[.]"⁴⁸

2. Consistent with the definition of "fuel adjustment clause" under HAR § 6-60-6, the automatic fuel rate adjustment clause referenced in HRS § 269-16(g) pertains to automatic rate adjustment clauses established solely to recover and pass through changes in fuel and purchased energy costs incurred by energy utilities (electric or gas), rather than automatic power cost adjustment clauses established by water or wastewater utilities to recover and pass through changes in electricity costs under HRS § 269-16.

Act 162, 2006 Session Laws of Hawaii, amended HRS § 269-16 by adding subsection (g), which reads as follows:⁴⁹

(d) Any automatic fuel rate adjustment clause requested by a public utility in an application filed with the commission shall be

⁴⁸House Stand. Comm. Rpt. No. 1677-06, in 2006 House Journal, at 1710; and Conf. Comm. Rpt. No. 45, in 2006 Senate Journal, at 922, and 2006 House Journal, at 1790.

⁴⁹Act 162, 2006 Haw. Sess. Laws § 2, 645.

designed, as determined in the commission's discretion, to:

- (1) Fairly share the risk of fuel cost changes between the public utility and its customers;
- (2) Provide the public utility with sufficient incentive to reasonably manage or lower its fuel costs and encourage greater use of renewable energy;
- (3) Allow the public utility to mitigate the risk of sudden or frequent fuel cost changes that cannot otherwise reasonably be mitigated through other commercially available means, such as through fuel hedging contracts;
- (4) Preserve, to the extent reasonably possible, the public utility's financial integrity; and
- (5) Minimize, to the extent reasonably possible, the public utility's need to apply for frequent applications for general rate increases to account for the changes to its fuel costs.

HRS § 269-16(g) (emphasis added).

Upon a plain reading of HRS § 269-16,⁵⁰ the commission finds that the application of HRS § 269-16(g) is limited to automatic fuel rate adjustment clauses proposed by a public utility, such as those proposed by an electric utility. In effect, such clauses are designed to automatically pass through to the utility's ratepayers, changes in the base cost of fuel used in generating energy. By contrast, Puhi Sewer seeks to establish an automatic power cost adjustment clause, which is intended to automatically pass through to its customers, changes

⁵⁰In re Public Util. Comm'n, Docket No. 05-0238, Decision and Order No. 22282, filed on February 10, 2006, at 35 - 36 (commission's plain reading of HRS § 269-16(b)).

in the cost of electricity purchased and utilized by Puhi Sewer to provide wastewater utility service to its customers.

Under the circumstances, the commission concludes that HRS § 269-16(g) does not apply to the APCAC proposed by Puhi Sewer. As additional support for this conclusion, the commission notes that HRS § 269-16(b) incorporates the more expansive phrase, automatic rate adjustment clause, which is not used in HRS § 269-16(g).

With respect to the APCAC, the commission finds reasonable Puhi Sewer's proposal to establish an APCAC, including the proposed methodology. In this regard, the commission notes that it has previously approved the establishment of power cost adjustment clauses by other wastewater utilities.⁵¹

H.

Commission's Approval

The Parties' stipulated rate increase provides Puhi Sewer with a reasonable opportunity to earn its test year revenue requirement of \$1,160,114. The Parties' Stipulation results from arms-length negotiations, involving "give and take" on both sides. The commission finds that the Parties' Stipulation, taken as a whole, appears just and reasonable. Accordingly, for purposes of this proceeding, the commission approves the Parties' Stipulation, consistent with the terms of this Proposed Decision and Order. Nonetheless, the commission's

⁵¹See, e.g., In re Pukalani STP Co., Ltd., Docket No. 05-0025, Proposed Decision and Order No. 22015, filed on September 7, 2005; and Decision and Order No. 22052, filed on September 28, 2005.

approval of the Parties' Stipulation, or of the methodologies used herein, may not be cited as precedent by any parties in any future commission proceeding.

III.

Summary of Findings and Conclusions

The commission finds and concludes:

1. The operating revenues and expenses for the test year, as set forth in Exhibit A, attached, are reasonable.

2. Puhi Sewer's use of an average test year rate base is reasonable, and its test year average depreciated rate base under present and proposed rates is \$2,211,644.

3. Puhi Sewer's rate of return of 8.85% is fair.

4. Puhi Sewer is entitled to: (a) an increase in revenues of \$55,274, or approximately five percent (5%) over revenues at present rates; and (B) total operating revenues of \$1,160,114.

5. The Parties' stipulated rate design is reasonable.

6. Puhi Sewer's proposal to establish and implement its APCAC is reasonable.

7. Puhi Sewer shall promptly file its revised tariff sheets and rates schedules for the commission's review and approval, which implement the increases in rates and charges authorized by this Proposed Decision and Order, with copies served upon the Consumer Advocate.⁵² Puhi Sewer's filing shall

⁵²Puhi Sewer's current tariff rate schedule lists the golf course irrigation/effluent charge under the Sewer Rates Schedules/Monthly Sewer Consumption Charge heading. To avoid future confusion, Puhi Sewer should list the golf course

include its approved APCAC, and an updated map of its authorized service territory.⁵³

IV.

Acceptance or Non-Acceptance

Consistent with HRS § 269-16(f)(3), within ten days from the date of this Proposed Decision and Order, each of the Parties shall notify the commission as to whether it:⁵⁴

1. Accepts in toto, the Proposed Decision and Order. If the Parties accept the Proposed Decision and Order, they "shall not be entitled to a contested case hearing, and [HRS] section 269-15.5 shall not apply." HRS § 269-16(f)(3).

2. Does not accept, in whole or in part, the Proposed Decision and Order. If so, said party shall give notice of its objection or non-acceptance and set forth the basis for its objection or non-acceptance. Id. Moreover, the party's objection or non-acceptance shall be based on the evidence and information contained in the current docket record, i.e., the materials available to the commission at the time of its issuance of the Proposed Decision and Order.

irrigation/effluent charge under a separate heading, since the effluent charge reflects the rate assessed by Puhi Sewer for the delivery of metered effluent used in golf course irrigation. See Puhi Sewer's Application, Exhibits PSW 4 and PSW 5.

⁵³See Puhi Sewer's response to CA-IR-2, Attachment CA-IR-2.

⁵⁴This deadline is consistent with the deadline to move for reconsideration of a commission decision or order. See HAR §§ 6-61-137 (ten-day deadline to file a motion for reconsideration); 6-61-21(e) (two days added to the prescribed period for service by mail); and 6-61-22 (computation of time).

Any party that does not accept the Proposed Decision and Order "shall be entitled to a contested case hearing; provided that the parties to the proceeding may waive the contested case hearing." Id. The commission shall make every effort to complete its deliberations and issue its Decision and Order by July 22, 2007. Id.

The underlying purpose of HRS § 269-16(f) is to expedite the ratemaking process for public utilities with annual gross revenues of less than two million dollars. Consistent thereto, the commission has completed its review and timely issues this Proposed Decision and Order. Nonetheless, the commission makes it clear that if it is required to issue a Decision and Order due to the non-acceptance of the Proposed Decision and Order by one or both of the Parties, the commission is free to review anew the entire docket and all issues therein.

V.

Orders

THE COMMISSION ORDERS:

1. The Parties' Stipulation, filed on March 30, 2007, is approved, consistent with the terms of this Proposed Decision and Order.

2. Puhi Sewer may increase its rates to produce a total annual revenue increase of \$55,274, or approximately five percent (5%), as shown on Exhibit A, attached, representing an increase in Puhi Sewer's revenue requirement to \$1,160,114.

3. Puhi Sewer shall promptly file its revised tariff sheets and rates schedules for the commission's review and

approval, which implement the increases in rates and charges authorized by this Proposed Decision and Order, with copies served upon the Consumer Advocate. Puhi Sewer's filing shall include its approved APCAC and an updated map of its authorized service territory, consistent with the terms of this Proposed Decision and Order. Puhi Sewer's revised tariff sheets and rate schedules, including the implementation of its approved APCAC, shall take effect upon the commission's approval of said filing.

4. Consistent with the terms of the Parties' Stipulation, Puhi Sewer shall:

A. Establish a new account, Account #300018, with a fifteen-year service life, and include the following rate base items in this account: Aeration Lagoon Diffusers; Blower #2; Lift Station Pump #2, Shuler Lift Station Pump #1, and Sludge Rake - Clarifiers #1, #2, and #3; and

B. Maintain the proper plant asset records in order to make the proper adjustments to its rate base for future rate proceedings by removing the remaining net book value cost of plant that is replaced prior to being fully depreciated.

5. Within ten days from the date of this Proposed Decision and Order, each of the Parties shall notify the commission as to whether it accepts, in toto, or does not accept, in whole or in part, this Proposed Decision and Order, consistent with Section IV, above. A party's objection or non-acceptance shall be based on the evidence and information contained in the current docket record.

6. The failure to comply with any of the requirements noted in the ordering paragraphs, above, may constitute cause to

void this Proposed Decision and Order, and may result in further regulatory action as authorized by State law.

DONE at Honolulu, Hawaii APR 20 2007.

PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

By Carlito P. Caliboso
Carlito P. Caliboso, Chairman

By John E. Cole
John E. Cole, Commissioner

APPROVED AS TO FORM:

Michael Azama
Michael Azama
Commission Counsel

2006-0423.eh

Exhibit A

PUHI SEWER & WATER CO., INC.
DOCKET NO. 06-0423
RESULTS OF OPERATIONS
TEST YEAR ENDED DECEMBER 31, 2007

	Present Rates	Additional Amount	Proposed Rates
REVENUES			
Single Family	\$ 341,413	\$ 22,265	\$ 363,678
Multi-Family	194,304	12,672	206,976
Commercial	345,165	18,787	363,952
Industrial	153,670	1,544	155,214
Hookup Fees	5,100	-	5,100
Effluent Sales	65,188	-	65,188
Difference due to rounding		6	\$ 6
Total Operating Revenues	<u>\$ 1,104,840</u>	<u>\$ 55,274</u>	<u>\$ 1,160,114</u>
O & M EXPENSES			
Electricity Charges	\$ 208,640	-	\$ 208,640
Water Utility Charges	3,536	-	3,536
Professional Fees - Aqua	199,860	-	199,860
Professional Fees - Other	29,000	-	29,000
Insurance	37,252	-	37,252
Management Fees	34,375	-	34,375
Repairs & Maintenance - Equipment	25,000	-	25,000
Allocated Charges	34,320	-	34,320
Rate Case Amortization	37,820	-	37,820
Bad Debt	5,840	298	6,138
Total O & M Expenses	<u>\$ 615,643</u>	<u>\$ 298</u>	<u>\$ 615,941</u>
Taxes, Other Than Income Tax	\$ 70,200	\$ 3,512	\$ 73,712
Depreciation	<u>\$ 154,919</u>	<u>-</u>	<u>154,919</u>
Operating Income Before Income Tax	\$ 264,078	\$ 51,464	\$ 315,542
Income Taxes	<u>100,270</u>	<u>19,541</u>	<u>\$ 119,811</u>
Net Operating Income	<u><u>163,807</u></u>	<u><u>31,923</u></u>	<u><u>\$ 195,731</u></u>
Average Rate Base	<u><u>\$ 2,211,644</u></u>		<u><u>\$ 2,211,644</u></u>
Return on Rate Base	<u><u>7.41%</u></u>		<u><u>8.85%</u></u>

DOCKET NO. 06-0423
PUHI SEWER & WATER CO., INC.
REVENUE TAXES
TEST YEAR ENDED DECEMBER 31, 2007

	<u>Tax Rates</u>	<u>Present Rates</u>	<u>Adj.</u>	<u>Proposed Rates</u>
Total Operating Revenues		<u>1,104,840</u>	<u>-</u>	<u>1,160,114</u>
Public Service Company Tax	5.885%	64,676	-	67,911
Public Utility Fee	0.500%	<u>5,524</u>	<u>-</u>	<u>5,801</u>
Total Revenue Taxes	6.385%	<u>70,200</u>	<u>-</u>	<u>73,712</u>

DOCKET NO. 06-0423
PUHI SEWER & WATER CO., INC.
INCOME TAX EXPENSE
TEST YEAR ENDED DECEMBER 31, 2007

	<u>Present Rates</u>	<u>Proposed Rates</u>
REVENUES		
Single Family	341,413	363,678
Multi-Family	194,304	206,976
Commercial	345,165	363,952
Industrial	153,670	155,214
Hookup Fees	5,100	5,100
Effluent Sales	65,188	65,188
Difference due to rounding	-	6
Total Operating Revenues	<u>1,104,840</u>	<u>1,160,114</u>
 OPERATING & MAINT. EXPENSES		
Electricity Charges	208,640	208,640
Water Utility Charges	3,536	3,536
Professional Fees - Aqua	199,860	199,860
Professional Fees - Other	29,000	29,000
Insurance	37,252	37,252
Management Fees	34,375	34,375
Repairs & Maintenance - Equipment	25,000	25,000
Allocated Charges	34,320	34,320
Rate Case Amortization	37,820	37,820
Bad Debt	5,840	6,138
Total O & M Expenses	<u>615,643</u>	<u>615,941</u>
 Taxes, Other Than Income Tax	70,200	73,712
Depreciation	<u>154,919</u>	<u>154,919</u>
Net Operating Expense	<u>840,762</u>	<u>844,572</u>
 Taxable Income	264,078	315,542
 Income Tax Provision		
Effective tax rate of	37.9700% 100,270	119,811
 Income Tax Expense	<u><u>100,270</u></u>	<u><u>119,811</u></u>

DOCKET NO. 06-0423
PUHI SEWER & WATER CO., INC.
AVERAGE RATE BASE
TEST YEAR ENDED DECEMBER 31, 2007

	<u>At</u> <u>12/31/2006</u>	<u>At</u> <u>12/31/2007</u>	<u>Average</u>
Description			
Plant in Service	5,370,809	5,523,458	
Accum. Depreciation	2,436,954	2,591,873	
Net-Plant-in-Service	<u>2,933,855</u>	<u>2,931,585</u>	2,932,720
Deduct:			
Accumulated Deferred Income Tax	643,946	698,461	
HCGETC	49,389	50,356	
CIAC	-	-	
Subtotal	<u>693,335</u>	<u>748,817</u>	721,076
Subtotal	2,240,520	2,182,768	
Average			2,211,644
Working Cash at Present Rates			<u>-</u>
Rate Base at Present and Proposed Rates			<u><u>2,211,644</u></u>

CERTIFICATE OF SERVICE

I hereby certify that I have this date served a copy of the foregoing Proposed Decision and Order No. 23376 upon the following parties, by causing a copy hereof to be mailed, postage prepaid, and properly addressed to each such party.

CATHERINE P. AWAKUNI
EXECUTIVE DIRECTOR
DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS
DIVISION OF CONSUMER ADVOCACY
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DATED: APR 20 2007